

COMPLIANCE AUDIT

Hempfield Township Volunteer Firemen's Relief Association of Mercer County, Inc.

Pennsylvania

For the Period

January 1, 2015 to December 31, 2017

February 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Joshua Noble, President
Hempfield Township Volunteer Firemen's
Relief Association of Mercer County, Inc.

We have conducted a compliance audit of the Hempfield Township Volunteer Firemen's Relief Association of Mercer County, Inc. (relief association) pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2015 to December 31, 2017.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2015 to December 31, 2017, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the finding listed below and discussed later in this report.

Finding – Undocumented Expenditure

We have also issued the observation below as detailed in the Observation section of this report.

Observation – A Relief Association-Owned Asset May Not Have Been Used
Or Disposed of Prudently And In Accordance With Act 118

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

February 11, 2019



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of relief associations to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations that is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

| <u>Municipality</u> | <u>County</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|----------------------|---------------|-------------|-------------|-------------|
| Hempfield Township | Mercer | \$22,316 | \$22,235 | \$20,244 |
| Sugar Grove Township | Mercer | \$ 5,411 | \$ 5,380 | \$ 4,740 |

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Hempfield Township Volunteer Fire Department

HEMPFIELD TOWNSHIP VOLUNTEER FIRMEN'S RELIEF ASSOCIATION
OF MERCER COUNTY, INC.
FINDING AND RECOMMENDATION

Finding – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$1,580 to an equipment vendor on March 8, 2017.

Criteria: Section 7418(a) of Act 118 states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as an invoice and/or itemized receipt, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice and/or itemized receipt, made it impossible to determine if the expenditure was made in accordance with Section 7416(f) of Act 118. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice and/or itemized receipt, to ensure the propriety of the expenditure or that the relief association be reimbursed \$1,580 for the undocumented expenditure. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

HEMPFIELD TOWNSHIP VOLUNTEER FIRMEN'S RELIEF ASSOCIATION
OF MERCER COUNTY, INC.
OBSERVATION

**Observation – A Relief Association-Owned Asset May Not Have Been Used Or Disposed Of
Prudently And In Accordance With Act 118**

The relief association invested \$64,000 in state aid funds to purchase a 1992 Spartan Fire Truck in 2006 to assist in providing fire service to its fire service area. The truck needed repairs amounting to an estimated total of \$1,100 to \$1,800, according to relief officials, and relief officials indicated that the relief association attempted to sell the truck for a period of about 8 months. On November 18, 2017, after the 8-month period, relief officials sold the truck for \$1 to an out of state charitable organization despite estimating that the truck held a value of approximately \$10,000. The Motor Vehicle Bill of Sale indicated that the “truck is being donated to the above mentioned (Buyer) as is with no claims of any warranty or liability for the seller”.

Relief association funds should be invested prudently and relief association officials should seek a reasonable rate of return on investments/assets it owns that retain a significant value.

As stipulated in Act 118, the primary purpose of a volunteer firefighters' relief association is to afford financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

Section 7413 Statement of purpose of Act 118 indicates in part:

The purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure, as far as circumstances will reasonably permit, that funds shall be available for the protection of volunteer firefighters and their heirs....

Section 7412 Definitions of Act 118 indicates in part:

“Fire service.” The service of organized groups of individuals not only in training for and in active duty in the protection of the public against fire....

“Volunteer firefighter.” A person who is a member of a fire company organized and existing under the laws of this Commonwealth....

HEMPFIELD TOWNSHIP VOLUNTEER FIRMEN'S RELIEF ASSOCIATION
OF MERCER COUNTY, INC.
OBSERVATION

Observation – (Continued)

Furthermore, Section 7414 Construction of Act 118 indicates in part:

This subchapter shall be:

- 1) Construed, applied and interpreted, so far as circumstances permit, as justifying the actions of the officers and members of volunteer firefighters relief associations affected by it, when the actions appear to have been taken in good faith and in a bona fide belief that they were in furtherance of the purposes of this subchapter.
- 2) Strictly construed and applied against persons responsible:
 - i) for actions taken in willful disregard of the purposes of this subchapter or with reckless indifference to those purposes' and
 - ii) if an action which has been called into question results, has resulted or was likely to result in an unmerited personal benefit to one or more of the persons responsible for taking that action.

In addition, Section 7416 Funds (c) Investments of Act 118 indicates in part:

All or any part of the funds of a volunteer firefighter's relief association may be invested....

Additionally, Section 7416 Funds (d) Limitation and (e) Income from investments of Act 118 indicates:

Limitation. No investment shall be acquired, encumbered or sold except pursuant to resolution duly enacted by the governing body of the association.

Income from investments. Income from investments may be invested or spent in the same way as any other income.

Because the asset was sold for much less than the relief association's estimated value of the asset and what may be attainable on the open market, the relief association may have lost the opportunity to obtain a reasonable return on the value of its investment/asset. Therefore, the relief association may have lost the opportunity to ensure that the true value of the asset was obtained, and as a result, potential relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

HEMPFIELD TOWNSHIP VOLUNTEER FIRMEN'S RELIEF ASSOCIATION
OF MERCER COUNTY, INC.
OBSERVATION

Observation – (Continued)

We recommend in the future that relief association officials seek a reasonable return on the value of all of its investments/assets owned that retain an estimated/open market appreciable value. Any deviation from this practice should be well documented in the relief association's meeting minutes to justify the deviation from the expected prudent action. Furthermore, in the future, if the relief association does not comply with the aforementioned recommendations when considering selling assets of which it owns that still retain a significant value, the relief association's future state aid allocations may be subject to a withholding.

Management's Response: Relief association management agreed with the observation and indicated they will take action to comply with the recommendation.

HEMPFIELD TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
OF MERCER COUNTY, INC.
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

| | |
|------|------------------|
| Cash | <u>\$ 23,888</u> |
|------|------------------|

HEMPFIELD TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
MERCER COUNTY, INC.
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

| | |
|---------------------------|------------------------|
| Benefit Services: | |
| Insurance premiums | \$ 10,428 |
| <hr/> | |
| Fire Services: | |
| Equipment purchased | \$ 11,720 |
| Equipment maintenance | 13,886 |
| Training expenses | 225 |
| Fire prevention materials | 1,750 |
| Total Fire Services | <hr/> \$ 27,581 |
| <hr/> | |
| Administrative Services: | |
| Bond premiums | \$ 200 |
| <hr/> | |
| Other Expenditures: | |
| Payments on loan | \$ 71,035 |
| Miscellaneous * | 12,069 |
| Undocumented expenditure | 1,580 |
| Total Other Expenditures | <hr/> \$ 84,684 |
| <hr/> | |
| Total Expenditures | <hr/> <hr/> \$ 122,893 |

* The relief association erroneously deposited a check that was for the affiliated fire department during the audit period. The miscellaneous expenditure is the reimbursement to the affiliated fire department from the relief association.

HEMPFIELD TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
MERCER COUNTY, INC.
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Hempfield Township Volunteer Firemen's Relief Association of Mercer County, Inc. Governing
Body:

Mr. Joshua Noble
President

Ms. Aldra Ritter
Vice President

Ms. Regina Wyant
Secretary

Ms. Melanie Thompson Soros
Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association
and received a copy of this report:

Mr. Todd P. Hittle
Secretary
Hempfield Township

Ms. Kara Michaleski
Secretary
Sugar Grove Township

This report is a matter of public record and is available online at www.PaAuditor.gov. Media
questions about the report can be directed to the Pennsylvania Department of the Auditor General,
Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to:
news@PaAuditor.gov.